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Diverse Accounting Standards on Disclosures of Islamic Financial Transactions: Prospects and Challenges of Narrowing Gaps

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Abstract

Purpose—Since International Financial Reporting Standards (IFRS) are not primarily meant for the accounting needs of Islamic banks, the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) was established to develop specific accounting standards for *Shari'ah* compliance. This paper assesses the *de jure* harmonization between the disclosure requirements of the IFRS-based Malaysian accounting standards (MAS) and those of the AAOIFI.

Design/methodology/approach—Using Malaysia as a case-study, the paper examines the extent of the *de jure* congruence between the IFRS-based MAS and AAOIFI's Financial Accounting Standard No 1 (FAS1), which is considered to be one of the key disclosure standards for Islamic banks. We employ lexicometrics and content analysis to analyse these accounting standards and the additional guidelines introduced by the Malaysian Accounting Standards Board (MASB) and the Central Bank of Malaysia (BNM) to identify the gaps between different tiers of MAS and FAS1.

Findings—The study finds that *de jure* congruence between the IFRS-based MAS and AAOIFI standards has improved through the introduction of additional accounting guidelines by both the MASB and the banking regulator, Bank Negara Malaysia. However, some gaps remain between the two standards. These gaps may be difficult to completely eliminate due to differences in the fundamental principles underlying the development of both standards.

Originality/value—While some studies have explored the *de facto* congruence between AAOIFI accounting standards and others, this paper is the first, to the best of our knowledge, to examine the *de jure* congruence between those standards with the IFRS-based MAS.

Keywords: AAOIFI accounting standards; *de jure* congruence; International Financial Reporting Standards; Islamic banking; Malaysian accounting standards.

Category of the Paper: Case Study

1. Introduction

Numerous countries, international professional bodies, and trade associations have been promoting the adoption of International Financial Reporting Standards (IFRS) for high quality accounting information, which ensures financial stability and economic efficiency in the globalised market. The motivation for adopting international accounting standards is to improve the quality of financial reporting in order to increase the level of user confidence of financial statements in making decisions and to improve the comparability of statements between different organizations and countries (Callao *et al.*, 2007; Gray, 1988; Jeanjean and Stolowy, 2008; Nobes, 1990; Sarea and Hanefah, 2013). Despite the fact that the IFRS issued by the International Accounting Standards Board (IASB) are increasingly being adopted worldwide, differences in accounting standards and practices in different countries remain. However, the variations in national accounting standards and practices are attributed to various local factors including religion, which range from the impact of religious ethics to accounting practices¹.

The core teachings of Islam are derived from the *Shari'ah* (Islamic law), which is the source of both laws and morals governing all aspects of life of its believers (Carney, 1983; Lewis, 2001; Reinhart, 1983).² The *Shari'ah* does not only contain ethical principles but also provides detailed rules governing economic transactions. For example, because levying of interest (*riba*) is prohibited by the *Shari'ah*, Islamic financial products are structured by using various alternative *Shari'ah* compliant contracts. These products and contracts alter the usual nature of banking practices and the relationship between banks and their stakeholders. For example, due to the prohibition of interest, the savings/investment deposit is facilitated by the adoption of risk-sharing contracts in the form of a profit-sharing investment account (PSIA) where an Islamic bank acts as an agent to manage funds on behalf of account holders on a risk-sharing basis. In this context, the agency relationship not only renders the operations of Islamic banks similar to investment banking but also has different accounting and reporting implications (Karim, 2001).³ As the return on PSIA is based on the profit/loss-sharing principle, the fiduciary nature of the contract requires more disclosure of banking operations to the depositors/investors so that they are better able to assess the risks and rewards *ex ante* and can be confident of receiving the actual realised returns *ex post*.

Arguably, IFRS cannot be used to account for the accounting requirements of Islamic banking operations arising from *Shari'ah* compliance contracts and products (Archer and Karim, 2007; Hamid *et al.*, 1993; Gambling and Karim, 1991; Ibrahim, 2009; Karim, 1996; Karim, 2001; Vinnicombe and Park, 2007). This is because some *Shari'ah*-based contractual requirements are not covered in IFRS or some provisions in IFRS are irrelevant for Islamic banks. Recognising the irrelevancy of IFRS in the Islamic finance industry, the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) was established in Bahrain as a standard-setting body to issue accounting standards for Islamic financial institutions that are *Shariah* compliant (Archer and Karim, 2007).⁴ In the development of its standards, the AAOIFI adopted an approach of examining the relevant IFRS and identify the extent to which they conformed to Islamic precepts and whether they catered to the requirements of *Shariah* compliant contracts. In cases where the IFRS did not meet the accounting needs of *Shariah* compliant contracts, AAOIFI developed appropriate standards (Archer and Karim, 2007, p. 305; Sulaiman, 2003).⁵

To ensure that stakeholders of Islamic banks are provided full and fair disclosure of information, AAOIFI expects Islamic banks to file with it a statement of compliance with each of its standards. However, the differences in the two different standards can be disconcerting to Islamic banks. Given that the comparability of financial statements is recognised as an important feature of financial reporting, countries that adopt AAOIFI standards are disadvantaged at the international level as some of the accounting guidelines prescribed by AAOIFI diverge from the IFRS. Evidently, this can and indeed, had been a concern for Islamic banks as the urge to move towards the use of transnational accounting standards and to harmonize practices has increased, particularly after the global financial crisis of 2007-2008 (Botzem 2014; Gillis et. al. 2014). The use of standards that are inconsistent with the IFRS may not be recognised by stakeholders and, thus, may be interpreted as being incongruent with international standards (El Qorchi, 2005; Ibrahim, 2009).

Interestingly, however, in countries where AAOIFI standards have not been adopted, the Islamic banks operating in such countries have to strive to fulfil divergent reporting objectives. Not only do they have to comply with domestic IFRS-based accounting standards, but they also have to conform to *Shari'ah* contractual stipulations that require them to disclose information that is expounded by the AAOIFI. One way in which Islamic banks have been dealing with this problem is to subjectively choose provisions in their domestic accounting standards that in their view follow the requirements of the *Shari'ah* (Archer and Karim, 2007). However, as not all the accounting requirements arising from *Shari'ah* compliance covered in the domestic accounting standards, some of which are IFRS-based, certain items will inevitably remain either unreported or inadequately reported. In such cases, Islamic financial institutions provide relevant information arising from *Shari'ah* contracts voluntarily. The variations in the approaches to the adoption of AAOIFI's standards in different Islamic countries coupled with the choices of Islamic banks have resulted in different varieties of financial statements for Islamic financial institutions globally (Karim, 2001).

Contextually, prior research focussing on harmonization with international standards can be classified as either *de jure* and *de facto*. Whereas the *de jure* studies analyse the uniformity or harmony of accounting regulations contained either in law or accounting standards, *de facto* research examines the actual financial reporting practices of firms (Nobes, 1998; Soewarso *et al.*, 2003 and Tay and Parker 1990).⁶ In empirical studies investigating *de jure* harmonization, local/domestic accounting standards are benchmarked against international standards whilst *de facto* studies examine the compliance with benchmarked international standards by the domestic firms. Although accounting and disclosure practices are determined to a large extent by the accounting standards and regulations in place, there can be major differences in *de facto* and *de jure* harmonization since firms can either fail to comply with the regulations or opt to go beyond them (Parker 1996).

As mentioned above, the differences in national accounting standards and practices are attributed to various factors. One such factor, which has rarely been studied, is the role of religion in accounting practices. For example, accounting standards issued by AAOIFI have religious undertones, but empirical studies examining *de jure* harmonization and *de facto* compliance with these standards are scant.⁷ Several studies have indeed assessed *de facto* compliance with Islamic accounting standards (Haniffa and Hudaib, 2004; Nadzri, 2009; Vinnicombe, 2010; Vinnicombe, 2012). While the extent of compliance with AAOIFI standards by different Islamic banks within a country varies, the compliance level by Islamic financial institutions with AAOIFI standards in countries that have not formally adopted the standards, tend to be relatively

poor. For example, whereas Vinnicombe (2012) finds compliance with AAOIFI standards by retail and wholesale banks in Bahrain to be above 60%, Ullah (2013) finds that a sample of Islamic banks in Bangladesh comply with only 44.7% of the disclosure requirements of the AAOIFI.

Surprisingly, extant literature on compliance with AAOIFI standards by Islamic banks ignores the regulatory aspects affecting accounting practices. As mentioned earlier, *de facto* compliance with AAOIFI standards by financial institutions partly depends on the national accounting and regulatory infrastructure. As banks are required to follow domestic accounting standards (DAS) that often conform to IFRS, non-compliance with the AAOIFI can be partly attributed to the national accounting standards with which banks must comply. Recognising that the IFRS-based national accounting standards are unable to satisfy the needs of Islamic banks, one option is to introduce supplementary guidelines for Islamic financial institutions. This can be done by both the accounting standard-setting body as well as by the regulators. Therefore, the scope for applying AAOIFI standards in jurisdictions using IFRS-based accounting standards will depend on the extent to which domestic standards are adjusted to accommodate the stipulations of the former. There are, however, no studies to date that examine issues related to *de jure* congruence of DAS with AAOIFI. This is an important gap in the literature since Parker (1996) argues that the lack of *de jure* studies that examine regulations and the institutional context can make the *de facto* studies rather sterile.

Given the above, the primary aim of the present study is to assess the gaps of the application of AAOIFI disclosure standards in a country that uses IFRS-based standards and examine the extent to which discrepancies can be reduced.⁸ Using Malaysia as a case-study, the paper examines the extent to which AAOIFI's Financial Accounting Standard No 1 (FAS1), '*General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions*' is implemented in the country. Malaysia is chosen since the country uses IFRS-based accounting and disclosure standards and it is at the forefront of Islamic finance in terms providing a highly supportive legal, regulatory and governance framework for the Islamic financial sector.

Other than contributing to the negligible literature on *de jure* harmonization with AAOIFI disclosure standards, the paper is distinct in another important way. In line with Hudson's (2009) classification of laws/regulations,⁹ we identify different architectural features of domestic accounting standards to accommodate AAOIFI guidelines. Specifically, three tiers of accounting standards related to disclosures relevant for Islamic banks that provide a comprehensive view of *de jure* harmonization are identified. The first and second tiers are accounting standards issued by the Malaysian Accounting Standards Board (MASB). While the former consists of general accounting standards that apply to all businesses, including the banking sector, the latter consists of specific guidelines that are applicable only to Islamic banks. The third tier consists of accounting guidelines that are formulated by the banking sector regulator, Bank Negara Malaysia (BNM). Considering the different tiers of accounting standards not only provides a comprehensive view of the status of *de jure* harmonization, but also identifies the different architectural features of accounting standards to accommodate AAOIFI guidelines in a jurisdiction that has not formally adopted Islamic accounting standards.

Although the primary focus of our study is to assess *de jure* congruence of the IFRS-based Malaysian accounting standards with the AAOIFI disclosure standards, we also examine the compliance of FAS1 by the largest fully-fledged Islamic bank in Malaysia, Bank Islam Malaysia Berhad (BIMB). This is done to explore if there are any additional

features of AAOIFI that BIMB complies with voluntarily to indicate how closely the bank's disclosure practices are determined by DAS vis-à-vis AAOIFI's FAS1.

The remaining sections of this paper are organised as follows. The next section briefly outlines the basic principles and framework of Islamic banking. Section three presents a discussion of the accounting standards in Islamic banks while section four is devoted to describing the various accounting regimes for Islamic banks. Whilst section five describes the research framework and research methodology employed, section six presents the results and discussion of our analysis. The final section offers the conclusion to the study.

2. Islamic Banking: Basic Principles and Model

Islamic finance was initiated to provide financial services to Muslims who prefer not to deal with conventional financial institutions due to their religious convictions. Since the emergence of the first Islamic bank in 1975, the industry has expanded rapidly and has become a significant sector in many countries. The total global Islamic financial assets were estimated at USD1.89 trillion in 2016 with the banking sector constituting approximately 79% of the total value (IFSB, 2017). As the industry evolved, it has increasingly attracted the attention of multilateral institutions such as the World Bank, the International Monetary Fund (IMF) and other major international financial centres such as London, Hong Kong and Singapore.

The underlying principle of Islamic law governing commerce and finance is permissibility (*ibahah*), which maintains that everything in economic affairs is permitted except those explicitly forbidden by divine guidance (Kamali, 2000). Prohibitions under Islamic law can be broadly classified as *riba* and *gharar*. Although it is common to associate *riba* (literally meaning increase or growth) with interest, it has much wider implications and can take different forms. The common premise in the prohibition of *riba* lies in the unequal trade of values in exchange (Siddiqi, 2004). One of the implications of *riba* is that debt can be transferred at its par value only and cannot be sold at discount.

Another prohibition to be observed is *gharar*, which literally means danger and also signifies deception. The word has connotations of excessive uncertainty and contractual ambiguity in transactions.¹⁰ *Gharar* can exist in either the terms of a contract or in the object of a contract and arises when the consequences of a transaction are not clear and there is uncertainty about whether a transaction will take place in terms of sale and its delivery. Islamic law distinguishes between ownership and possession and requires actual possession of something before it can be sold in order to ensure delivery.¹¹ Thus, uncertainty is present when either the object of sale does not exist or the seller and/or buyer does not have knowledge of the object being exchanged.

Accordingly, the composition of Islamic banks' assets and liabilities comprise of different types of financial instruments that are free from *riba* and *gharar*. Other than interest-free loans (*qard-hasan*), the principles of Islamic financing can be broadly classified as partnerships (*sharikat*) and exchange contracts (*mu'awadat*).¹² Partnerships can take two forms: *musharakah* and *mudarabah*. In *musharakah*, two or more parties finance and participate in a project and distribute the profit in an agreed ratio while in *mudarabah* one party (*rab ul mal*) supplies the funds and the other party (*mudarib*) carries out the project as an agent/manager and shares the profit in an agreed ratio. Losses, however, are borne by the providers of capital according to their share of capital contribution, which, in the case of a *mudarabah*, will be assumed by the financier.

There are different kinds of exchange contracts and important among these is the deferred-trading principle, which can be either a price-deferred sale or an object-deferred sale. In a price-deferred sale (otherwise known as *bai-mua'jjal*) the object is delivered at the time of the conclusion of the contract but the price is paid at some time in the future. One type of financial transaction under this format is the mark-up sale (i.e., *murabahah*) in which the Islamic bank buys a good or asset and sells it to the client at a mark-up. The client pays for the good or asset at a future date or in instalments.

In contrast, the object-deferred or pre-paid sales include both *salam* and *istisna*. A *salam* sale, applied mainly for agricultural financing, is an advance purchase of a generic good whereby the buyer/bank pays in advance for a commodity that is delivered later. *Istisna* or commissioned manufacturing is similar to a *salam* contract except that in *istisna* the good is produced/built according to the specifications given by the buyer. The client asks the financier to provide a built asset (such as real estate) and the payments are made over a period of time in the future. Meanwhile, *ijarah* is a leasing contract in which the client uses an asset by paying rent. One form of this arrangement is the hire-purchase or lease-purchase scheme (*ijarah wa iqtina*) in which the instalments include rent and part of the amortisation. While in both financial lease and *ijarah wa iqtina* the legal ownership of the leased asset is retained by the lessor, there is a difference in who bears the risk of the assets. In the former, the risks of the assets are transferred to the lessee and in the latter the lessor bears the risks associated with ownership. When the instalments are fully paid, the ownership of the asset is transferred to the client at a nominal price or by means of a gift.

Nevertheless, the dominant model of Islamic banking is the one-tier *mudarabah* with multiple financing tools (Ahmed, 2011; Iqbal et.al., 1998). On the liability side of the balance sheet of Islamic banks, demand deposits take the form of *qard hasan* (interest-free loans) that are returned fully on demand. Savings and investment deposits use *mudarabah* contracts and take the form of profit-sharing investment accounts (PSIA). Using the profit-sharing principle to reward depositors is a unique feature of Islamic banks. The returns on PSIA are contingent on return on assets, implying that neither principal nor return is guaranteed. However, it should be noted that the PSIA can either be restricted or unrestricted. In the restricted form, the deployment of the investment amount has to be clearly specified whereas in the unrestricted PSIA, the bank is authorised to invest funds without restriction.

On the asset side, Islamic banks use various sale-based instruments (such as *murabahah*, *istisna/salam* and *ijarah*) and profit-sharing modes (such as *musharakah* and *mudarabah*). Theoretically, these instruments can be used on the assets side, but in practice most Islamic banks predominantly tend to use debt-based (*murabahah*) and leasing (*ijarah*) contracts. The bank can also opt to provide interest-free loans (*qard-hassan*) to a limited number of deserving clients to fulfil social objectives. Furthermore, to maintain the Islamic nature of the organization, any income from interest and penalties arising from default must be put aside in a special account and be used only for charitable purposes. Similarly, *zakat* dues and arrangements to pay these on behalf of shareholders and clients should also be identified.¹³

3. Accounting and Disclosure Standards for Islamic Financial Institutions

As Islamic finance is based on religious principles, an additional goal of financial reporting would be to disclose a bank's compliance with Islamic law (AAOIFI, 2010; Baydoun and Willet, 1997). Shafii and Zakaria (2013b) identify the *Shari'ah* issues arising from the application of IFRS for some Islamic financial transactions. Other concerns include conflicting terminologies and the need for detailed disclosures

explaining the *Shari'ah* contracts and its mechanics along with the accounting records reported in the annual reports. The growth of the Islamic finance industry globally necessitates the production of credible, reliable and comparable financial statements and reports by Islamic banks that fulfil accounting requirements consistent with Islamic principles. To fulfil this need, the AAOIFI was established in 1991 as a standard-setting body to issue accounting and auditing standards for Islamic financial institutions in accordance with Islamic law (AAOIFI, 2010; Maurer, 2002; Kamla, 2009; Sarea and Hanefah, 2013). The AAOIFI is supported by members from 45 countries including central banks, Islamic financial institutions, and other participants from the industry. The AAOIFI has issued a total of 100 standards that includes accounting standards, auditing standards, governance standards, ethics standards and *Shari'ah* standards (AAOIFI, 2018; Nizam, 2012). To date, AAOIFI accounting standards have been adopted in 7 countries.¹⁴

The AAOIFI (2010, p. 6) '*Accounting, Auditing & Governance Standards for Islamic Financial Institutions*' outlines the conceptual framework of developing standards as follows:

- a) The identification of accounting concepts which have been previously developed by previous standard-setting bodies which are consistent with Islamic principles and ideals of accuracy and fairness.
- b) The identification of aspects that require disclosure and greater transparency to abide by the principles and ideals of *Shari'ah*.
- c) The identification of concepts which are used by other standard-setting bodies that conflict with the *Shari'ah* and the development of new relevant concepts for the purpose of financial reporting by IFIs (Islamic financial institutions).
- d) The development of concepts to address the unique nature of certain transactions, events and conditions in IFIs. An example of this includes funds mobilized by IFIs under the *mudaraba* model.

Archer and Karim (2007) explain how the above framework is implemented by AAOIFI to develop standards. The rules of recognition and measurement of IFRS were adopted in the AAOIFI standards as long as they did not contradict with Islamic principles. Similarly, the presentation and disclosure requirements of the international standards were accepted if they were consistent with the operations of Islamic financial institutions. In addition, AAOIFI added recognition, measurement, presentation and disclosure guidelines and standards for contracts and activities that are unique to Islamic banks. Consequently, some accounting principles developed by the AAOIFI are novel and different from IFRS. Examples of these include statements related to restricted investments and sources and uses of funds in *zakat*, charity funds and *qard* funds.

The extent to which the AAOIFI standards can be used in jurisdictions that use IFRS-based standards will partly depend on two structural features that determine their flexibility. First, the scope for applying a standard in different contexts depends on whether it is rule-based or principles-based.¹⁵ Of the two, the principles-based accounting standards are more adaptable than their rule-based counterparts and can be accommodated in indigenous environments and cultures (Carmona and Trombetta, 2008). Deemed principle-based (Forgeas, 2008; Collins *et al.*, 2012; PWC, 2013), IFRS standards have the flexibility to be adopted across a wide range of jurisdictions. However, this is not the case with AAOIFI standards. Even though elements of AAOIFI standards are based on IFRS in cases when there are no contradictions with the *Shari'ah*

(Sulaiman, 2003), they also incorporate detailed accounting rules and clauses related to contractual stipulations arising from the *Shari'ah*, thus rendering them rule-based.

The second key feature determining the adaptability of accounting standards relates to the emphasis given to 'form' versus 'substance' in reporting. While standards that focus on substance are flexible in accommodating contracts with different formats, the importance assigned to legal form makes acceptance of diverse contracts difficult. As IFRS gives weight to the economic substance of a transaction in financial reporting (Baker and Hoyes, 2004), it provides flexibility by accommodating different contracts that are similar in substance. However, in the case of Islamic financial contracts, both form and substance are crucial. Specifically, the *Shari'ah* not only requires compliance with the contractual forms and processes but also insists that form and substance be consistent (BNM, 2013; AAOIFI, 1993). For example, a *Shari'ah*-compliant deferred-sale (*murabahah*) contract creating a debt resembles a purchase financed by an interest-based loan in substance. However, the sale cannot be treated as a loan and must be reported by its format, with its legal implications (Archer and Karim, 2007). Essentially, the structural features of IFRS appear to be more flexible than AAOIFI standards, implying that the application of different contractual forms is possible in the former and that the scope for divergence from the stipulations of the latter is relatively limited.

3.1. Extant Literature on Compliance with AAOIFI Standards:

While there is a large body of literature examining the harmonization of domestic standards and practices with international accounting standards, empirical work on the compliance with AAOIFI accounting standards is limited. In their pioneering research on the application of Islamic accounting standards, Haniffa and Hudaib (2004) measured the compliance of five Islamic financial institutions in the Gulf region with AAOIFI accounting standards and discovered that two sampled Islamic banks in Bahrain achieved a high degree of compliance. The relatively high level of compliance in Bahrain was found to be mainly influenced by the fact that Bahrain hosts the AAOIFI and enforces the adoption of AAOIFI accounting standards as a basis for the licensing of Islamic banks (CBB, 2013).

In a similar effort, Vinnicombe (2010) measured the compliance of all 26 fully licensed Islamic banks in Bahrain with AAOIFI accounting standards and found that the level of compliance varies from one category to another. For instance, she found the level of compliance to be higher for *murabahah* finance but lower for *mudarabah* finance and *zakat*. In a subsequent paper, Vinnicombe (2012) identified a few methodological problems in her earlier study and showed a higher level of compliance with AAOIFI standards except for in *zakat* and unrestricted investment accounts. Apart from compliance by Islamic banks, Sarea (2012) studied the understanding and acceptance of AAOIFI accounting standards among accountants working in Islamic banks in Bahrain. The study reaffirms Vinnicombe's (2012) findings of high level acceptance of all AAOIFI requirements apart from unrestricted investment accounts and *zakat*.

In the global context, Nadzri (2009) analysed the state of compliance of 25 Islamic financial institutions worldwide with AAOIFI rules specifically relating to *zakat* disclosure. The research highlights that the extent of compliance with AAOIFI requirements by Islamic financial institutions is generally low. Interestingly, although Islamic banks in Bahrain provided more disclosure relating to *zakat*, full compliance with the AAOIFI is yet to be achieved. In the Asian context, several studies have examined *de facto* compliance with international Islamic accounting guidelines in Bangladesh, a country that has not adopted the AAOIFI standards. For example, Ahmed and Khatun (2013) examined the compliance level of 17 banks offering Islamic

financial services in the country with AAOIFI guidelines on the *Shari'ah* governance system and found that none of the Islamic banks fully complied with the relevant guidelines. They report that fully-fledged Islamic banks registered a higher degree of compliance as compared to other banks that have Islamic windows or branches. Similarly, Ullah (2013) attempted to ascertain compliance with AAOIFI guidelines in relation to FAS1 by seven Islamic banks in Bangladesh and showed that the average compliance with Islamic rules for the banks in the sample was 44.68%. He observed that none of the Islamic banks complied with the disclosure requirements on *zakat* and charity funds, *qard* funds and restricted and unrestricted investment accounts. It is thus, noteworthy, that all previous empirical work on AAOIFI relates to *de facto* compliance by Islamic financial institutions and not *de jure* congruence with DAS.

4. Financial Reporting and Disclosure Regimes for Islamic Banks in Malaysia

Islamic banking was initiated in Malaysia with the enactment of the Islamic Banking Act 1983 (IBA, 1983), and, subsequently, Bank Islam Malaysia Berhad (BIMB) was established in the same year to pioneer the development of the industry (Haron & Ahmad, 2000). Bank Negara Malaysia (BNM), the central bank of Malaysia, is vested with the power to regulate and supervise Islamic financial institutions in Malaysia. Malaysia also makes key contributions to the regulations, standardisation and development of *Shari'ah* standards (Khan and Bhatti, 2008; Ibrahim, 2009). The national *Shari'ah* Advisory Council (SAC) was established by BNM in 1997 to serve as the highest authority for dealing with *Shari'ah* issues relating to Islamic banking and insurance (Khiyar, 2012). The legal framework of Islamic banking and *takaful* sectors were further strengthened with the enactment of the Islamic Financial Services Act (IFSA) in 2013.

The Malaysian Islamic financial industry has prospered and is regarded as one of the most developed in the world (Khan and Bhatti, 2008; Ibrahim, 2009; Khiyar, 2012). With an estimated value of US\$ 405.9 billion of Islamic finance assets constituting 18.5% of the total global Islamic financial assets in 2016, Malaysia has the third largest Islamic finance sector after Iran and Saudi Arabia (ICD and Thomson Reuters 2017). Its Islamic banking assets were worth USD170.28 billion in 2013 constituting 21% of the overall banking sector, and its *takaful* assets totalled USD 8.596 billion, accounting for 10% of the insurance industry during the same year. The size of the capital market in Malaysia in 2013 was RM 2.733 trillion (USD 810 billion), of which 56.4% were *Shariah* compliant (CIBAFI et al., 2015). The country ranks as the top performer according to a comprehensive Islamic Finance Development Indicator developed by ICD and Thomson Reuters in 2017 (ICD and Thomson Reuters 2017).

Focussing on accounting, the Malaysian Accounting Standards Board (MASB) was established in 1997 as an independent standard-setting body mandated to develop and issue accounting and financial reporting standards in Malaysia (MASB, 2013). MASB decided to re-position the Malaysian Financial Reporting Standards (MFRS) towards the IFRS in 2008 to ensure the compatibility of financial reporting with global standards (IFRS Foundation, 2014; Shafii *et al.*, 2013; Shafii and Zakaria, 2013a). MASB completed the convergence process in 2012 when they mandated that all companies were required to use MFRS in their financial reporting practices (IFRS 2017; Yeow and Mahzan, 2013). The final version of MFRS is closely aligned with IFRS, and, to a large extent, is a word-for-word equivalent (IFRS, 2017; World Bank, 2012).

Since inception, the MASB has initiated a project on Islamic financial reporting to formulate AAOIFI-type standards for Islamic financial institutions. To this end, MASB released its first Islamic accounting standard in 2001 entitled '*Presentation of Financial*

Statements of Islamic Financial Institutions'. However, an attempt to issue a separate, stand-alone set of Islamic accounting standards appeared ineffective as the standard reiterated conventional standards. As a result, MASB abandoned attempts to devise separate Islamic accounting standards (AOSSG, 2010). Subsequently, in September 2009, MASB withdrew the Islamic standards and issued the '*Statement of Principles i-1: Financial Reporting from an Islamic Perspective*' to affirm that all accounting standards issued by MASB would apply to all *Shari'ah*-compliant transactions and events, unless there were any *Shari'ah* prohibitions (MASB, 2013).

Additional guidance and rules on accounting for Islamic finance are covered in other pronouncements. Apart from the *Statement of Principles*, MASB issued four technical releases and three discussion papers to guide accounting issues of Islamic banks. Technical releases provide guidance on the implementation of accounting and reporting for Islamic financial transactions not dealt with by the IFRS. The Technical Releases issued are:

- i. Technical Release TR i-1, *Accounting for Zakat on Business*: Outlines the method of zakat calculation and how zakat items are to be presented in the financial statements.
- ii. MASB Technical Release TR i-2, *Ijarah*: Withdrawn due to major changes to the leasing standard.
- iii. Technical Release TR i-3, *Presentation of Financial Statements of Islamic Financial Institutions*: Contains guidelines on the financial statement reporting format specifically for IFIs. This includes guidelines on additional notes disclosure such as disclosure of earnings or expenditure prohibited by the *Shari'ah*.
- iv. Technical Release TR i-4, *Shari'ah Compliant Sale Contracts*: Explains that a 'true sale' under the *Shari'ah* does not necessarily result in de-recognition of the sold item for accounting purposes.

Besides the standards and guidelines of MASB, the financial reporting of Islamic banks also falls under the purview of Bank Negara Malaysia (BNM), the central bank of the country (Ahmed, 2002). Although BNM requires all licensed Islamic financial institutions to prepare financial statements according to MFRS, they recognise that some disclosure requirements arising from *Shari'ah* compliance are not covered in DAS. Thus, Islamic banks are required to comply with *Financial Reporting for Islamic Banking Institutions* (FRIBI), which obliges them to disclose information arising from 'the Shariah contracts applied in Islamic banking transactions' (BNM, 2013, p. 2). BNM issued a circular on the Application of MFRS and Revised Financial Reporting Requirements for Islamic Banks, effective on 1 January 2012. In this circular, BNM emphasized the requirement of Islamic banks to comply with Financial Reporting Standards (FRS) approved by the MASB, highlighting specific accounting treatment arising from new and revised FRS and requirements on the use of the fair value option. This circular also highlighted the importance of having sound governance structures, risk management systems and policies for the use of the fair value option.

BNM also issued its own reporting guideline referred to as "Guidelines on Financial Reporting for Licensed Islamic Banks" (GP8-i) in 2005. In 2012, a concept paper on GP8-i was issued and it was made effective on 1 January 2014. The objective of the Guidelines on Financial Reporting for Licensed Islamic Banks (GP8-i) is to provide the basis for the presentation and disclosure of reports and financial statements of Islamic banks in carrying out its banking and finance activities. This is to ensure the consistency

and comparability of these statements among the Islamic banks in complying with the provisions of the Companies Act 1965, applicable approved accounting standards, and Shariah requirements and also to facilitate users in their evaluation and assessment of the financial position and performance of an Islamic bank.

5. Research Framework and Methodology

As indicated, the aim of the research is to examine the *de jure* congruence of the Malaysian accounting standards (MAS) related to disclosure with one of the AAOIFI's key disclosure standards for Islamic banks (i.e., FAS 1). To achieve the objectives of the study, two distinct research questions are formulated. First, to what extent do the IFRS-based MAS cater to the disclosure requirements stipulated by AAOIFI standards? Second, what are the additional measures taken by public bodies to enhance the application of AAOIFI disclosure standards and to what extent are the gaps reduced? Though the focus of the current study is based on the *de jure* congruence of Malaysian accounting standards (MAS) with AAOIFI standards, to enrich our study further we also undertook an examination of the compliance and disclosure practices of Bank Islam Malaysia Berhad (BIMB) for both standards under investigation.¹⁶ This was to identify areas in which the national accounting standards (i.e. MAS) and guidelines could be extended to improve congruence with AAOIFI standards.

Malaysia was chosen for the case-study for several reasons. First, since the objective is to assess the *de jure* harmonization of DAS with AAOIFI standards, a country in which the AAOIFI standards are adopted would not be appealing since the latter would be applicable by default. Thus, a country in which AAOIFI standards had not been adopted would be an obvious choice and the Malaysian accounting standards issued by the MASB follow IFRS standards very closely. Second, the country is at the forefront of Islamic finance development not only domestically but also globally. The development of Islamic finance is among the strategic goals of the financial sector and there are different public bodies actively supporting the development of the industry.¹⁷ Therefore, an examination into the role of the different governmental bodies in developing the information disclosure framework relevant to the Islamic finance sector can also allow a better understanding of the dynamics at play. Therefore, in an attempt to assess the gaps in the application of AAOIFI standards in Malaysia that primarily adopt IFRS-based MAS, we also performed a content analysis of accounting standards along with other textual data to fully achieve our objective.¹⁸ Also, since FAS 1 focuses on disclosure, we also consider those MAS standards related to disclosure to keep the research manageable.

A simple method used by previous researchers such as Haniffa and Hudaib (2007), Tay and Parker (1990) and Nobes (1990) is adopted to assess the *de jure* congruence and the *de facto* compliance of the Malaysian accounting standards and practice of BIMB respectively. The method is akin to leximetrics that is used to quantify laws and regulations (Buchanan et al., 2014; Lele and Siems, 2007). It involves deriving metrics by first selecting variables that serve as the benchmark and then evaluating the regulations of the jurisdiction under study in light of the former. A simple way of quantification is to use a binary coding method in terms of the presence or absence of the clauses/stipulations in the relevant regulations and assigning a score of '1' for the former and '0' for the latter. The final score is calculated by adding the total which shows the overall status of compliance or harmonization relative to the benchmark. To ensure validity and reliability, two researchers independently carried out the assessment of the relevant documents and cross-referenced the results to mitigate discrepancies. In

discussing the results, the notions of *absence* and *divergence* identified by Ding et. al (2007) are used to explain the gaps in the *de jure* congruence of DAS and the *de facto* compliance by BIMB with FAS1.¹⁹

As the Financial Accounting Standard No 1 (FAS1) (*General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions*) is considered to be the key disclosure standard for Islamic banks, its *de jure* congruence is evaluated by comparing it with the different tiers of Malaysian accounting standards related to disclosure. All 180 items of FAS1, presented in 13 categories, are used in the analysis and comparison.²⁰ Specifically, *de jure* congruence is estimated by calculating the percentages of stipulations of FAS1 that appear in different tiers of Malaysian accounting standards. Meanwhile, *de facto* compliance is arrived at by identifying the additional FAS1 requirements reported in the financial reports of BIMB beyond those found in MAS3. Furthermore, Armour et al. (2009) and Lele and Siems (2007) assert that when examining a variable within a jurisdiction, it does not matter functionally which law or regulation addresses it. Since a variable can be covered in any of the laws or regulations, its assessment would require examining a wider range of legal rules.

To examine the *de jure* congruence of Malaysian accounting standards with AAOIFI standards, different levels of accounting standards and guidelines were identified. As indicated, three tiers of accounting standards related to disclosures relevant for Islamic banks were recognised. The first tier consists of general accounting standards issued by MASB that apply to all businesses, including the banking sector. The second tier consists of specific accounting standards and guidelines that are also released by MASB and apply only to Islamic banks. The final tier consists of accounting guidelines that are formulated and imposed by the regulator of Islamic banks, BNM. Given the different types of accounting standards and guidelines, the Malaysian accounting standards (MAS) are examined by categorising the latter into three tiers as highlighted below:

1. **Tier 1:** Tier 1 Malaysian account standards (MAS1) constitute various generic MFRS issued by MASB that are relevant and related to AAOIFI FAS1. The particular documents used in MAS1 for the analysis include the following:
 - a. MFRS101 - Presentation of Financial Statements (MASB, 2011a)
 - b. MFRS107 - Statement of Cash Flows (MASB, 2011b)
 - c. MFRS108 - Accounting Policies, Changes in Accounting Estimates and Errors (MASB, 2011c)
 - d. MFRS110 - Events After the Reporting Period (MASB, 2011d)
 - e. MFRS116 - Property, Plant and Equipment (MASB, 2011e)
 - f. MFRS118 – Revenue (MASB, 2011f)
 - g. MFRS124 - Related Party Disclosures (MASB, 2011g)
2. **Tier 2:** Malaysian account standards at tier 2 (MAS2), consisting of MAS1 identified in Tier 1 and additional specific guidelines issued by MASB for Islamic banks entitled *Technical Release i-3 - Presentation of Financial Statements of Islamic Financial Institutions* (TRi3) (MASB 2009) and *TRi-1 Accounting for Zakat on Business* (MASB 2006).
3. **Tier 3:** Tier 3 Malaysian account standards for Islamic banks (MAS3) including MAS2 at Tier 2 along with *Financial Reporting for Islamic*

Banking Institutions (FRIBI) (BNM 2013) and *Investment Accounts (IA)* (BNM 2014) issued by Bank Negara Malaysia (BNM), the central bank of the country.

All documents are available in English and did not require translation.

5. Results and Analysis

The extent of the *de jure* congruence of AAOIFI standards with MAS is examined at three levels. First, the differences between the standard IFRS-based accounting standards (MAS1) at Tier 1 are compared. Recognizing that MAS1 cannot satisfy the accounting needs of Islamic banks, MASB developed additional standards to satisfy the reporting needs of Islamic banks. The gaps in the Tier 2 accounting standards, the MAS2 and AAOIFI standards were thus identified. Finally, at Tier 3 MAS3 evaluates the extent to which the gaps are further filled by complementary accounting regulations issued by the central bank.

While the focus of this paper is on *de jure* compliance, we evaluate the compliance of BIMB with FAS1 by examining the annual report and financial statements of the bank for the year ending 2016 (BIMB, 2016a and 2016b) to see the extent of voluntary compliance. While the absence of FAS1 rules in MAS3 indicates the limitations imposed by MAS3 on compliance with AAOIFI standards by Islamic banks, the *de facto* compliance with FAS1 by BIMB reveals the additional reporting by the bank that goes beyond the requirements of what is required in MAS3.

 Insert Table 1 about here

While Appendix A shows the item-wise details of *de jure* congruence and *de facto* compliance with FAS1, Table 1 presents the summary of the results and the specific items of FAS1 that are not covered in MAS3 are shown in Table 2.²¹ The differences in congruence and compliance with FAS1 reveal some structural issues arising from diverse international accounting standards and allude to the ways in which gaps are narrowed by relevant public bodies by introducing additional tiers of accounting standards and guidelines.

5.1. De Jure Congruence, Absence and Divergence

Table 1 shows that the degree of *de jure* congruence with AAOIFI's FAS1 varies significantly for different tiers of DAS. At the Tier 1 level, MAS1 complies with only 52.5% of FAS1 requirements overall. The low level of harmony with the generic DAS reflects the neglect of *Shari'ah*-related accounting issues in IFRS stemming mainly from the conceptual differences in the nature of transactions and contracts underlying two diverse international standards. For example, the congruence of MAS1, which consists of the IFRS based MFRS standards, with FAS1 for the *Income Statement* category is only 31.6% since the former excludes several disclosure items related to the unique features of investment accounts and *zakat* in Islamic banks. The large discrepancy between MAS1 and FAS1 is partly resolved by the Technical Releases of MASB (Tri-1 and Tri-3) at the Tier 2 level as it specifically deals with *zakat* and some accounting issues related to Islamic finance. For instance, in relation to the *Income*

Statement, Tri-3 covers most of the issues related to investment accounts identified in FAS1 which raises the compliance of MAS2 in this category to 84.2%. Although the Tier 2 accounting standards, MAS2, improves the overall weighted average of congruence with FAS1 to 69.4%, this figure is still deemed to be low. However, the t-test and Wilcoxon statistic show that the improvement is statistically significant at the 10% level.

With the addition of the accounting requirements of FRIBI and IA of BNM at the Tier 3 level, the overall congruence between MAS3 and FAS1 increases significantly to 93.3% and this is mainly attributed to the inclusion of several specific FAS1 requirements in these documents. For example, FRIBI covers several items on *zakat* in the *Income Statement* that increases the level of compliance of MAS3 with FAS1 in this category to 94.7%. For the overall weighted averages of compliance, the t-test and Wilcoxon statistic indicate that the difference between MAS2 and MAS3 is highly significant. Interestingly, this implies that the central bank's disclosure requirements for Islamic banks are sensitive to FAS1 and fill some important gaps in the guidelines issued by MASB, the accounting standards-setting body of the country.

Insert Table 2 about here

As previously discussed, two types of discrepancies can be identified in the *de jure* congruence of the DAS with AAOIFI standards. First is the absence or omission of requirements of FAS1 in the Malaysian accounting standards. The gaps in the generic DAS and MAS1 are large as it is based on IFRS and ignores stipulations arising from the prerequisite of *Shari'ah* compliance. Although supplementary accounting standards and guidelines decrease the congruence gap at the Tier 2 and Tier 3 levels, they still fail to include all of the requirements of AAOIFI. The categories of FAS1 that are omitted from MAS3 include statements on changes in restricted investment accounts and sources and uses of *zakat* and charity funds (see items 2e and 2f in Table 2). For instance, the FAS1 requirement that Islamic banks disclose the conditions and obligations of each type of unrestricted investment account and other deposit accounts is absent from MAS3 (see item 45 in Table 2).

The second type of discrepancy constituting divergence or discord between the two standards is more serious. An example of divergence is AAOIFI's refusal to consider accounting provisions as liabilities, which contradicts MAS3 (see item 32b in Table 2). After all, different interpretations of liabilities can result in dissimilar computations and lead to varying amounts of profits. This disparity can adversely affect the comparability of financial statements of Islamic banks in different jurisdictions. A further example of divergence is the fact that MAS3 requires assets and liabilities in the statement of financial position (SOPF) to be segregated into current and non-current categories. In particular, all assets and liabilities that are expected to be liquidated or cleared within 12 months shall be classified as current and the remaining assets and liabilities shall be classified as non-current. However, FAS1 does not oblige Islamic banks to segregate assets and liabilities as current and non-current; rather, it requires these to be listed in the order of their relative liquidity.²² Further analysis shows that MAS3 has two contradictory requirements related to the issue. While MFRS101 requires the assets and liabilities to be segregated between current and non-current, TRi-3 suggests that Islamic banks need not segregate their assets and liabilities accordingly. Instead, in line with FAS1, TRi-3 stipulates that these be presented in order of liquidity (MASB, 2009, p. 8).

Table 2 indicates that the items of FAS1 that are not covered in MAS3 can be categorised into the four themes. The first theme relates to investment accounts and covers specific issues related to restricted and unrestricted investment accounts (items 2e, 12f, 42, 45 and 63g). Second, compliance with requirements includes items dealing with certain specific disclosure issues related to compliance with FAS1 (items 1b, 7a, 7b and 9j). Third category relates to *zakat* (items 2f and 50l). Finally, a sole item in the last category is treating provisions at liability (item 32b). As discussed above, while all the items identified in the first three categories could be easily incorporated into MAS3, as these are not contradictory to the principles of MFRS, it is difficult to reconcile the FAS1 treatment of provisions not being liable as it contradicts IFRS principles.

5.2. Voluntary Disclosures and Potential for Congruence

Table 1 also reveals that the *de facto* compliance of BIMB with FAS1 is at 95%, which is a slight improvement over the *de jure* congruence of 93.3% with MAS3. Note that the compliance of BIMB with FAS1 over and above MAS3 can be mainly attributed to the voluntary adoption of AAOIFI requirements by the bank. Although Islamic banks are bound by regulations to use DAS that can limit the reporting of *Shari'ah*-related issues, they can disclose additional information voluntarily to satisfy the needs of different stakeholders. Table 2 shows that there are three items (i.e., items 7a, 7b and 50l) in FAS1 that are not in MAS3, but were adopted by BIMB.

As in the case of *de jure* congruence, the *de facto* compliance results also show some gaps arising from absence and divergence in the application of FAS1 by BIMB. Some of the discrepancies in *de facto* compliance appear to arise from adherence to DAS (see item 2e in Table 2). For example, while FAS1 requires a separate statement showing sources and the uses of *zakat*, it is neither obligated by MAS3 nor reported by BIMB. Another example of omission in BIMB disclosures is information on profits or losses in the restricted investment accounts (see item 63g in Table 2). This practice of BIMB, although in line with MAS3 requirements, does not follow FAS1, thereby reducing the transparency of the funds and returns of investment account holders.

Furthermore, there are cases in which financial reporting by BIMB that is based on MAS3 diverges from FAS1. BIMB treats restricted investment accounts as part of the deposit from customers and reports these as liabilities in the statement of financial position (SOFP). BIMB does not disclose unrestricted investment accounts as separate items but instead combines all other deposits and investment accounts together as a single-line item. This treatment, again, contradicts AAOIFI's requirement to differentiate unrestricted investment accounts from other type of deposits and reports them as separate items between the owner's equity and liabilities (see item 42 in Table 2).

It should be noted that while the enactment of IFSA 2013 in Malaysia will have impacted the reporting and disclosure of information by Islamic banks, it has not been included in this study. Among others, IFSA has changed the definition of investment accounts and does not classify them as deposits. There appears to be no clear understanding on the nature and status of these accounts and whether they should be considered on- or off-balance sheet items (Rosman et al., 2015). BNM issued '*Prudential Limits and Standards on Investment Accounts*' in March 2014 which also contains a section on Transparency and Disclosure. As the adoption of IFSA started in 2014 and was expected to be completed in 2015, the impact of the act on financial statements appears in the financial statements of 2016. While the specific reporting implications of IFSA are not known yet, it is expected to reduce the divergence in reporting between MAS and AAOIFI standards.

6. Conclusion

This paper highlights the *de jure* congruence issues in Islamic finance arising from the divergent sets of international accounting standards that are based on a distinct and unique religious ethos. The conceptual framework of AAOIFI standards is based on *Shari'ah* principles and thus diverges from the conventional IFRS. Given these exceptional disparities, the use of AAOIFI accounting standards in countries with IFRS-based standards can create reporting differences for Islamic banks. The diverse rules in international standards can also create problems in the development and use of Islamic accounting standards domestically.

Using Malaysia as a case-study, the paper examines the structure of domestic IFRS-based accounting standards to assess the status of *de jure* compatibility with AAOIFI standards. Despite its status as one of the dominant markets for Islamic finance and notwithstanding the proactive steps taken by the government to promote the industry, the degree of *de jure* congruence of generic MFRS with AAOIFI standards in Malaysia is relatively low. This is partly due to the focus of MASB on IFRS convergence to ensure that financial statements are consistent and comparable globally. The level of *de jure* congruence of MFRS with AAOIFI standards improves by introducing supplementary accounting standards for Islamic banks. In addition, we find that there is significant further improvement in *de jure* congruence with AAOIFI standards by supplementary accounting and disclosure requirements issued not by the accounting standards setting body MASB, but by the regulator of the banking sector BNM.

Overall, our results suggest that although discrepancies between the AAOIFI and IFRS-based MAS delineates the limits that national standards impose on Islamic banks in using the former, the evidence obtained from the disclosure practice of BIMB shows that it complies with local accounting standards. The implication is that the low levels of compliance with AAOIFI standards found in earlier studies for countries such as Bahrain and Bangladesh can be attributed to their domestic accounting and reporting standards. Our findings have implications for Islamic banks, stakeholders, accounting standard setters and regulators alike. In particular, regulators will need to ensure that the quality of disclosure becomes even more crucial if they want to maintain stakeholders' confidence in the financial information provided by Islamic banks. Finally, given the unique features of Islamic banks, our study provides useful insight to stakeholders emphasising that while it is easier to implement the AAOIFI stipulations that are absent in IFRS, it will be difficult to adopt the provisions that differ or conflict with the latter.

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Notes

¹ Various political, economic, social, cultural and legal factors explain the differences in accounting practices. See Ding *et al.* (2007), Clements *et al.* (2010), Gray (1988), Hamid *et al.* (1993), Jacobs (2004), Nobes (1990) and Radebaugh *et al.* (2006). While the dominant view limits the role of religion in economics and accounting, some have argued for the introduction of religious values in order to promote, among other things, ethics and justice (McKernan and MacLulich, 2004; Gallhofer and Haslam, 2004). An issue of *Accounting, Auditing and Accountability Journal* (Vol. 17, No. 3, 2004) was devoted to accounting and theology. For a brief review of the literature on religion and accounting, see Carmona and Ezzamel (2006).

² The word *Shari'ah* is used to mean the whole body of Islamic law. It should be noted that it is sometimes defined more narrowly as laws contained in the primary sources of Islamic knowledge (the *Quran* and prophetic traditions or *Sunnah*). The bulk of Islamic jurisprudence derived by scholars through independent reasoning by various methods is referred to as *fiqh* (Hassan 1992). Laws related to commerce and transactions are referred to as *fiqh ul muamalat* or Islamic commercial law.

³ Karim (2001) argues that given the nature of risk sharing investment accounts, an Islamic bank essentially performs the function of investment management that raises certain agency problems that do not exist in conventional banks. For a detailed discussion on the nature of profit sharing investment accounts and its implications for accounting, see Karim (2001).

⁴ Note that the predecessor to the AAOIFI was the "Financial Accounting Organization for Islamic Banks and Financial Institutions" established in 1991 to set accounting standards for IFIs. The organization later evolved into the "Accounting and Auditing Organisation for Islamic Financial Institutions" (AAOIFI) in 1995 and also started issuing auditing and Shariah standards (AAOIFI 2010).

⁵ Archer and Karim (2007, p. 305) identify the approach taken by AAOIFI to develop standards which is to examine the relevant IFRS and identify the extent to which they are Shariah compliant and whether they cater to the requirements of Shariah compliant contracts. In cases where the IFRS did not cater to the reporting needs of Shariah compliant contracts, AAOIFI developed the appropriate standards.

⁶ Another way of categorising the same is to distinguish between *formal* and *material*, with the former being related to the harmonisation of standards and the latter with the financial statements of firms (Tarca, 1998). Tay and Parker (1990) also distinguish between harmony and harmonisation. While harmony assesses the congruence of standards at a point in time, harmonisation relates to the process through which the compatibility changes over time. In this paper the former notion is used and is referred to as congruence.

⁷ The empirical studies on compliance with AAOIFI standards are discussed in a later section.

⁸ In accounting and disclosure studies, several theoretical frameworks can be adopted by utilising a multi-theory approach which includes agency theory, stakeholder theory, signalling theory, and legitimacy theory. For example, in relation to Intellectual Capital disclosure Yi, Davey and Eggleton (2011) highlight that agency theory was based on the concept of separation of ownership and management creating a principal-agent relationship and that disclosure are considered part of the monitoring package to reduce information asymmetry and agency problems with their resulting costs. Meanwhile, the

stakeholder theory extends the shareholder point of view to include several stakeholders in a relationship between them and the organization and the existence of two main sources of accountability (i.e., ethical and managerial). The proponents of signalling theory suggested that information asymmetry could be reduced by sending signals to interested parties (Yi et al., 2011). Finally, legitimacy theory explains the relationship between the organization and society at large in terms of a “social contract”. See also Chen and Roberts (2010) and Kelton and Yang (2008).

⁹ Hudson (2009) identifies three types of laws that affect the financial sector. First, substantive laws that are general in nature but also affect financial transactions. These include laws such as contract, property, tort, company, tax, criminal, etc. The second type constitutes specific statutes related to the financial sector such as banking, insurance and securities laws. Finally, financial institutions also abide by regulations that are formulated and enforced by a statutory regulatory body.

¹⁰ For different meanings and a detailed discussion of *gharar* see El Gamal (2001, p. 32) and Al-Dhareer (1997).

¹¹ Note that possession can be constructive, whereby the asset/good is legally owned but not held physically. An example of such possession is a bank account. For a discussion on ownership and possession see El Gari (1997).

¹² Detailed expositions of the different principles of Islamic financing are found in Ayub (2007) and Usmani (1999).

¹³ *Zakat* (also sometimes spelled as *zakah*) is an obligatory levy on the wealth of all Muslims owning more than a threshold amount, and it is distributed to, among others, the needy and poor (Ahmed, 2004; Maali et al., 2006). Note that while AAOIFI standards spell the word as *zakah*, Malaysian standard uses *zakat*.

¹⁴ AAOIFI standards are adopted in Bahrain, Dubai International Financial Centre, Jordan, Lebanon, Qatar, Sudan and Syria. In some other countries such as Indonesia, Malaysia, Pakistan, Saudi Arabia and South Africa, the standards are only referred to by the relevant authorities as guidelines in developing their own standards (AAOIFI, 2017; Ullah, 2013).

¹⁵ While it is recognised that most regulatory standards will have traits of rules and principles, the degree of specificity in terms of ‘bright lines’ will determine their dominant nature (Baker and Hayes 2004; Burgemeestre et al., 2009; Collins et al., 2012).

¹⁶ ‘Summary of Significant Accounting Policies’ under ‘Notes to Financial Statements’ in the BIMB (2016: 159) indicates that the statements are prepared in accordance with ‘the applicable Malaysian Financial Reporting Standards (“MFRS”), International Financial Reporting Standards (“IFRS”), and the requirements of Companies Act, 1965 in Malaysia and Shariah requirements.’ There is no specific mention of compliance with AAOIFI standards.

¹⁷ Bank Negara Malaysia (BNM), the central bank of Malaysia, prepared the *Financial Sector Blueprint 2011-2020*, laying down the key strategic elements of the development of the banking and insurance/*takaful* sectors. Securities Commission Malaysia, the regulator for Malaysia’s capital market, produced the *Capital Market Masterplan 2* for capital market development for the period 2011-2020. Both of these strategic documents have elements related to the growth of Islamic financial segments.

¹⁸ For a discussion on content analysis see Chapter D7 in Matthews and Ross (2010).

¹⁹ *Absence* is defined as ‘the extent to which the rules regarding certain accounting issues are missing in DAS (DAS) while covered in IAS (international accounting standards)’ and *divergence* indicates ‘the difference between DAS and IAS as the extent to which the rules regarding the same accounting issue differ in DAS and IAS’ (Ding et al., 2007, p. 3).

²⁰ The last item of FAS1 relating to the effective date of the standard is not included in the analysis.

²¹ Appendix A shows the details of the analysis by identifying all the items of FAS1 that appears in various standards and guidelines and BIMB financial reports. While column 4 of the appendix indicates the relevant Malaysian accounting guidelines against which the specific disclosure requirement of FAS1 is matched, column 5 indicates the additional voluntarily compliance by BIMB with AAOIFI accounting standards.

²² See Compliance index no 072 in the Appendix.

Table 1: MAS Congruence with AAOIFI FAS1						
No.	Category of Requirements	No. of Items	Percentage of Compliance			
			Tier 1 MAS1	Tier 2 MAS2	Tier 3 MAS3	BIMB
1	Scope of the Standard	2	0.0	0.0	50.0	50.0
2	General Provisions	16	62.5	68.8	75.0	87.5
3	General Disclosures in the Financial Statements	47	63.8	80.9	95.7	95.7
4	Statement of Financial Position	42	45.2	64.3	92.9	92.9
5	Income Statement	19	31.6	84.2	94.7	100.0
6	Statement of Cash Flows	5	100.0	100.0	100.0	100.0
7	Statement of Changes in Owners' Equity or Statement of Retained Earnings	12	91.7	91.7	100.0	100.0
8	Statement of Changes in Restricted Investments	13	0.0	0.0	92.3	92.3
9	Statement of Sources and Uses of Funds in the <i>Zakah</i> and Charity Fund	4	0.0	50.0	100.0	100.0
10	Statement of Sources and Uses of Funds in the <i>Qard</i> Fund	5	20.0	20.0	100.0	100.0
11	Treatment of Changes in Accounting Policies	10	90.0	90.0	100.0	100.0
12	Treatment of Changes in Non-routine Accounting Estimates	3	100.0	100.0	100.0	100.0
13	Treatment of a Correction of an Error in Prior Period Financial Statements	2	100.0	100.0	100.0	100.0
Weighted Average Compliance Rate		180	52.5	69.4	93.3	95.0
<u>Tests for differences in MAS1-MAS2</u> Paired T-test: T-value=2.11, P-value=0.056 Wilcoxon signed ranks test: <i>Wilcoxon Statistic</i> =15.00, P-value=0.059 <u>Tests for differences in MAS2-MAS3</u> Paired T-test: T-value=3.10, P-value=0.009 Wilcoxon signed ranks test: <i>Wilcoxon Statistic</i> =55.00, P-value=0.006 <u>Tests for differences in MAS3-BIMB</u> Paired T-test: T-value=1.35, P-value=0.202 Wilcoxon signed ranks test: <i>Wilcoxon Statistic</i> =3.00, P-value=0.371						

Table 2: Summary of Differences between AAOIFI FAS1 and MAS

Disclosure Requirements (Item Numbers) in AAOIFI FAS1 Not Covered in Malaysia Standards (MAS3)	Compliance by BIMB	Discrepancy Themes
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1. Scope of the standard		
1b. Statements on the incompliance with AAOIFI (if any)	No	Compliance with requirements
2. General provisions		
2e. Statement of changes in restricted investment	No	Investment Accounts
2f. Statement of sources and uses of funds in the <i>Zakat</i> and charity fund	No	<i>Zakat</i>
7a. Inclusion of "Notes to the financial statements from ___ to ___ are an integral part of financial statements"	Yes	Compliance with requirements
7b. Notes to the account should be set forth immediately after the last page of FS	Yes	Compliance with requirements
3. General disclosures in the FS		
9j. The agency responsible for supervising the bank's activities	No	Compliance with requirements
12f. Use of historical cost as basis of determining equity of owners of unrestricted investment accounts	No	Investment Accounts
4. Statement of Financial Position (SOFP)		
32b. Accounting provisions are not considered as liabilities	No	Provisions as liabilities
42. Unrestricted investment accounts and their equivalent should be disclosed and presented in the SOFP as a separate item between liabilities and owner's equity	No	Investment Accounts
45. Rights, conditions and obligations of each type of unrestricted investment account and other deposit accounts	No	Investment Accounts
5. Income Statement (IS)		
50l. <i>Zakat</i> and taxes (to be separately disclosed)	Yes	<i>Zakat</i>
8. Statement of Changes in Restricted Investments (SCRI)		
63g. Restricted investment profits or losses during the period with separate disclosure of the amount resulting from the revaluation of restricted investments to their cash equivalent values	No	Investment Accounts

Appendix A: FAS1: Compliance Results

Paragraph No	Disclosure Requirements	Compliance Index No	Malaysian Standards	Complied BIMB
1. Scope of the standard				
1	a. Applicable to all Islamic Banks (IBs)	001	FRIBI 2.1	-
	b. Statements on the incompliance with AAOIFI (if any)	002	N/A	No
2. General provisions				
2	Complete set of financial statements (FS) shall consist the following:			
	a. Statement of financial position	003	MFRS101 10(a)	-
	b. Income statement	004	MFRS101 10(b)	-
	c. Statement of cash flows	005	MFRS101 10(d)	-
	d. Statement of changes in equity or statement of retained earnings	006	MFRS101 10(c)	-
	e. Statement of changes in restricted investment	007	N/A	No

	f. Statement of sources and uses of funds in the <i>Zakah</i> and charity fund	008	N/A	No
	g. Statement of sources and uses of <i>Qard</i> fund	009	FRIBI 11.10	-
	h. Notes to the FS	010	MFRS101 10(e)	-
	i. Any supplement statements, reports and other data	011	MFRS101 10(e)	-
3	Comparative FS	012	MFRS101 38	-
4	Monetary amount should be rounded to the nearest monetary unit	013	MFRS101 53	-
5	Form, classification and terminology used in FS should ensure a clear presentation of the contents	014	TRi3 10	-
6	a. All pages should be numbered	015	MFRS101 52	-
	b. Notes to the FS should be cross referenced to the related items in the FS	016	MFRS101 113	-
7	a. Inclusion of "Notes to the financial statements from __ to __ are an integral part of financial statements"	017	N/A	Yes
	b. Notes to the account should be set forth immediately after the last page of FS	018	N/A	Yes
3. General disclosures in the FS				
8	FS should disclose all material information	019	MFRS101 53	-
9	FS should disclose, to the extent applicable, the following:			
	a. Name of the IB	020	MFRS101 51(a)	-
	b. Country of incorporation	021	MFRS101 138(a)	-
	c. Formation date and legal form	022	MFRS101 138(a)	-
	d. Location of headquarters and number and branches	023	MFRS101 138(a)	-
	e. Nature of the activities its authorised to carry	024	MFRS101 138(b)	-
	f. The names of the bank's subsidiaries whose FS are consolidated and the details	025	MFRS 13	-
	g. The names of the bank's subsidiaries whose FS are not consolidated and the details	026	MFRS124 13	-
	h. The name of the holding company and the names of other affiliates	027	MFRS101 138(c)	-
	i. The role of Shariah advisor or the Shariah board	028	FRIBI 11.4(a)	-
	j. The agency responsible for supervising the bank's activities	029	N/A	No
	k. The bank's responsibility towards Zakah	030	FRIBI 11.6 (b)	-
	l. The tax treatment in the country of incorporation and in other countries where the bank has operating branches	031	MFRS101 90	-
10	a. FS should disclosed the currency used for accounting measurement	032	MFRS101 51(d)	-
	b. The FS should disclose the accounting method used for translating foreign currency balances and transactions.	033	MFRS121 3(a)	-
11	Definition of accounting policies.	034	MFRS101 117	
12	The following in regards of accounting policies should be disclosed			
	a. The accounting policies that represent a choice among alternative methods	035	MFRS101 119	-
	b. Accounting policies which are inconsistent with the concepts of financial accounting for IB, if any	036	FRIBI 10.6(a)(ii)	-
	c. Accounting policies adopted for revenue, gain and loss recognition.	037	MFRS118 35	-
	d. Accounting policies adopted for the recognition and determination of doubtful receivables and the policies of writing-off debts	038	MFRS139 9/ FRIBI 10.8	-
	e. Accounting policies for the revaluation of assets, liabilities and restricted investments	039	MFRS116/ FRIBI10.13(b)(i)	-

	f. Use of historical cost as basis of determining equity of owners of unrestricted investment accounts	040	N/A	No
	g. Accounting policies for consolidation	041	MFRS10	-
13	Significant accounting policies should be disclosed as either first or second notes to the FS	042	MFRS101 114	-
14	Disclosure of unusual supervisory restrictions	043	TRi3 32	-
15	Disclosures of earnings or expenditures prohibited by <i>Shariah</i>	044	FRIBI 11.6(c)	-
16	Disclosures of concentrations of asset risks			
	a. Economic sectors	045	TRi3 37(c)	-
	b. Customer type	046	TRi3 37(b)	-
	c. Geographical area	047	TRi3 37(a)	-
	d. Foreign countries	048	TRi3 37(d)	-
17	Disclosures of concentration of sources of unrestricted investment account and their equivalent and other accounts	049	TRi3 38	-
18	Disclosures of the distribution of unrestricted investment accounts and their equivalent in accordance with their respective periods to maturity	050	TRi3 39	-
19	Disclosures of the distribution of assets in accordance with their respective periods to maturity or expected period to cash conversion	051	FRIBI 10.7(f)	-
20	Disclosure of compensating balances	052	MFRS7	-
21	Disclosures of risk associated with assets and liabilities which are denominated in foreign currency	053	MFRS7 31	-
22	Disclosure of contingencies	054	FRIBI 10.20	-
23	Disclosure of outstanding financial commitments as of the date of FS	055	FRIBI 10.20	-
24	Disclosure of significant subsequent events	056	MFRS110 21	-
25	Disclosure of restricted assets or assets pledged as security	057	MFRS116 74(a)	-
26	Disclosure of accounting changes			
	a. Change in an accounting policy	058	MFRS108 28	-
	b. Change in a non-routine accounting estimate	059	MFRS108 39	-
	c. Correction of an error in prior period FS	060	MFRS108 49	-
27	Disclosure of the method used by the IB to allocate investment profits or losses between unrestricted investment account holders and the IB as <i>Mudarib</i> or as an investment manager whether or not participating in the investment with its own funds	061	TRi3 43	-
28	Definition of related parties	062	MFRS124 9	-
29	Contents of the disclosure of related party transactions			
	a. Nature of relationship	063	MFRS124 13	-
	b. Nature and amount of transactions during the period	064	MFRS124 18(a)	-
	c. Balances due from or due to the related party	065	MFRS124 18(b)	-
4. Statement of Financial Position (SFP)				
30	Date of SFP should be disclosed	066	MFRS101 51(c)	-
31	Details of components in the SFP	067	MFRS101 54	-
32	a. Assets should not be set-off against liabilities	068	MFRS101 32	-
	b. Accounting provisions are not considered as liabilities	069	N/A	No
33	Significant items in the face SFP should not be combined without disclosure	070	MFRS101 55	-
34	Disclosure of the amount of any allowance to cover expected losses	071	FRIBI 10.8	-
35	Asset and liabilities should be combined into grouping in accordance with their nature and should be presented in the order to the relative liquidity	072	TRi3 11	-
36	Assets and liabilities should not be classified between current and non-current in the SFP	073	TRi3 10	-

37	Disclosure should be made on the face of the SOFP or the notes to FS for the following assets with separate disclosures of assets jointly financed by the IB and unrestricted investment account holders and those exclusively financed by the IB:			
	a. Cash and cash equivalent	074	MFRS101 54(i)	-
	b. Receivables (<i>Murabahah, Salam and Istisna'</i>)	075	FRIBI 11.7	-
	c. Investment securities	076	MFRS101 54(d)	-
	d. <i>Mudarabah</i> financing	077	FRIBI 11.7	-
	e. <i>Musharakah</i> financing	078	FRIBI 11.7	-
	f. Investment in other entities	079	MFRS101 54(e)	-
	g. Inventories (including goods purchased for <i>Murabahah</i> customers prior to consummation of <i>Murabahah</i> agreement)	080	FRIBI 11.11	-
	h. Investment in real estate	081	MFRS101 54(b)	-
	i. Assets acquired for leasing	082	FRIBI 11.12	-
	j. Other investments with disclosure of their types	083	MFRS101 54(d)	-
	k. Fixed assets with disclosures of significant types and related accumulated depreciation	084	MFRS101 54(a)	-
	l. Other assets with disclosure of significant types	085	MFRS101 55	-
38	Disclosure on net realisable value of assets if such value is less than the recorded amount.	086	MFRS116 73	-
39	Disclosure on the historical cost of assets or the historical amounts of liabilities which are reflected in the SOFP at their estimated cash equivalent values, when the revaluation of assets and liabilities to their estimated cash equivalent value is utilised.	087	MFRS116 73	-
40	Disclosures on the changes of the provision for doubtful debts for receivable as follows:			
	a. Provision charged to income statement during the period	088	FRIBI 11.8	-
	b. Receivables written-off during the period	089	FRIBI 11.9	-
	c. Receivables collected during the period which were previously written-off	090	FRIBI 11.9	-
	d. Balance of the provision for doubtful receivables as at beginning and end of the period	091	FRIBI 11.8	-
41	Disclosure should be made in the SOFP or notes to the FS of the following liabilities:			
	a. Current accounts, saving accounts and other accounts, with separate disclosure of each category of accounts	092	FRIBI 11.13 (a)	-
	b. Deposits of other banks	093	TRi3 16	-
	c. <i>Salam</i> payables	094	TRi3 23	-
	d. <i>Istisna'</i> payables	095	TRi3 23	-
	e. Declared but undistributed profits	096	TRi3 23	-
	f. <i>Zakah</i> and taxes payable	097	TRi3 16	-
	g. Other accounts payable	098	TRi3 16	-
42	Unrestricted investment accounts and their equivalent should be disclosed and presented in the SOFP as a separate item between liabilities and owner's equity	099	N/A	No
43	A consolidated SOFP should disclose the minority interest	100	MFRS101 54(q)	-
44	Disclosures in regards of capital as follows:			
	a. Authorised, subscribed and paid-in capital	101	MFRS101 79(a)	-
	b. Number of authorised ownership units, number of issued ownership unite, number of outstanding ownership unites, par value per units and premiums on issued unites	102	MFRS101 79(a)	-
	c. Legal reserve and discretionary reserves at the beginning and end of the period and changes therein during the period	103	FRIBI 11.18	-

	d. Retained earnings at the beginning and end of the period and amount of retained earnings resulting from the revaluation of assets and liabilities to their cash equivalent values and changes therein during the period including distribution to owners and transfers to or from reserves	104	MFRS101 106	-
	e. Other changes in owners' equity during the period	105	MFRS101 106	-
	f. Any restrictions imposed on the distribution of retained earnings to owners	106	MFRS101 79(a)	-
45	Rights, conditions and obligations of each type of unrestricted investment account and other deposit accounts	107	N/A	No
5. Income Statement (IS)				
46	Period covered by the IS should be disclosed	108	MFRS101 51(c)	-
47	Investment revenues, expenses, gains and losses should be disclosed by type	109	MFRS101 82	-
48	Nature of material revenues, expenses, gains and losses from other activities should be disclosed	110	MFRS101 97	-
49	Where applicable, estimated gains and losses from the revaluation of assets and liabilities to their cash equivalent values should be disclosed including the general principles in the revaluation of assets and liabilities	111	MFRS116 39	-
50	To the extent applicable, the following information should be disclosed in the IS with separate disclosure of investment revenues, expenses, gains and losses jointly financed by the IB and unrestricted investment account holders and those exclusively financed by the IB:			
	a. Revenues and gains from investments	112	TRi3 25	-
	b. Expenses and losses from investments	113	TRi3 26	-
	c. Net Income or net losses from investments	114	TRi3 26	-
	d. Share of unrestricted investment account holders in income or losses from investment before the bank's share as a <i>Mudarib</i>	115	TRi3 25	-
	e. The IB's share in income or loss from investments	116	TRi3 25	-
	f. The IB's share in unrestricted investment income as a <i>Mudarib</i>	117	TRi3 25	-
	g. The IB's share in restricted investment profits as a <i>Mudarib</i>	118	TRi3 25	-
	h. The IB's fixed fee as an investment agent for restricted investments	119	TRi3 25	-
	i. Other revenues, expenses, gains and losses	120	TRi3 25	-
	j. General and administrative expenses	121	TRi3 26	-
	k. Net income or losses before <i>Zakah</i> and taxes	122	FRIBI Appendix A	-
	l. <i>Zakah</i> and taxes (to be separately disclosed)	123	N/A	Yes
	m. Net income or losses	124	MFRS101 82	-
51	<i>Zakah</i> base should be disclosed whenever the IB is obligated to pay such <i>Zakah</i> on behalf of all owners	125	FRIBI 11.6(b)	-
52	Minority interest in net income or losses should be disclosed in the consolidated IS as a separate item before net income or losses	126	MFRS101 83	-
6. Statement of Cash Flows (SOCF)				
53	The period covered by SOCF should be disclosed	127	MFRS101 51(c)	-
54	The SOCF should differentiate between cash flows from operations, investments and financing activities	128	MFRS107 10	-
55	The SOCF should disclose the net increase or decrease in cash and cash equivalent during the period and the balance of cash and cash equivalent at the beginning and end of the period	129	MFRS107 22	-
56	Transactions and other transfers that do not require the payment of or do not result in the receipt of cash and cash equivalent should be disclosed.	130	MFRS107 43	-

57	The IB's policy with respect to the components of cash and cash equivalent used as a basis for the preparation of the SOCF	131	MFRS107 45	-
7. Statement of Changes in Owners' Equity (SOCE) and Statement of Retained Earnings (SRE)				
58	The period covered by the SOCE or the SORE should be disclosed	132	MFRS101 51(c)	-
59	The statement of SOCE should disclose the following:			
	a. Paid-in-capital, legal and discretionary reserves separately, and retained earnings as of the beginning of the period with separate disclosure of the amount of estimated earnings resulting from revaluation of assets and liabilities to cash equivalent values	133	MFRS101 106(d)	-
	b. Capital contribution by owners during the period	134	MFRS101 106(d)	-
	c. Net income or losses during the period	135	MFRS101 106(d)	-
	d. Distribution to owners during the period	136	MFRS101 106(d)	-
	e. Increase or decrease in legal and discretionary reserves during the period	137	FRIBI 11.18	-
	f. Paid-in-capital, legal and discretionary reserves and retained earnings as of the end of the period with separate disclosure of the amount of estimated earnings resulting from revaluation of assets and liabilities to their cash equivalent values	138	MFRS101 106(d)	-
60	The SORE should disclose the followings:			
	a. Retained earnings at the beginning of the period with separate disclosure of the amount of estimated retained earnings resulting from the revaluation of assets and liabilities to the cash equivalent values	139	MFRS101 106(d)	-
	b. Net income or loss for the period	140	MFRS101 106(d)(i)	-
	c. Transfer to legal and discretionary reserves during the period	141	MFRS101 106(d)(ii)	-
	d. Distribution to owners during the period	142	MFRS101 106(d)(iii)	-
	e. Retained earnings at the end of the period with separate disclosure of the amount of estimated retained earnings resulting from the revaluation of assets and liabilities to the cash equivalent values	143	MFRS101 106(d)	-
8. Statement of Changes in Restricted Investments (SCRI)				
61	The period covered by the SCRI should be disclosed	144	IA 24.1	-
62	The statement should segregate restricted investments by source of financing and investment portfolios by type	145	IA 27.6(b)	-
63	The SCRI should disclose the following:			
	a. The balance of restricted investments at the beginning of the period with separate disclosure of the portion of the balance resulting from the revaluation of restricted investments to their cash equivalent values	146	IA 27.6(b)(i)	-
	b. The number of investment units in each of the investment portfolios and the value per unit at the beginning of the period	147	IA 27.6(b)(i)	-
	c. Deposits received or investment units issued by the IB during the period	148	IA 27.6(b)(i)(a)	-
	d. Withdrawals or repurchase of investment units during the period	149	IA 27.6(b)(i)(b)	-
	e. The IB's share in investment profits as a <i>Mudarib</i> or its fixed fee as an investment agent	150	IA 27.6(b)(i)(c)	-
	f. Allocated overhead expenses, if any, from the IB to restricted investment accounts or portfolios	151	IA 27.6(b)(i)(d)	-

	g. Restricted investment profits or losses during the period with separate disclosure of the amount resulting from the revaluation of restricted investments to their cash equivalent values	152	N/A	No
	h. The balance of restricted investments at the end of the period with separate disclosure of the portion of the balance resulting from the revaluation of restricted investments to their cash equivalent values	153	IA 27.6(b)(i)(e)	-
	i. Number of investment units in each of the investment portfolios at the end of the period and the value per unit	154	IA 27.6(b)(i)(e)	-
64	Notes to the SCRI should disclose the following:			
	a. The nature of the relationship between IB and owners of restricted investments either as a <i>Mudarib</i> or investment agent	155	IA 27.6(a)	-
	b. The rights and obligations associated with each type of restricted investment account or investment unit	156	IA 27.6(a)	-
9. Statement of Sources and Uses of Funds in the Zakah and Charity Fund (SSUZC)				
65	The period covered by the SSUZC should be disclosed	157	TRi1 6	-
66	Disclosure should be made of the IB's responsibility for the payment of <i>Zakah</i> and whether the bank collects and pays <i>Zakah</i> on behalf of owners of unrestricted investment account holders	158	FRIBI 11.6(b)	-
67	Other sources of funds in the <i>Zakah</i> and charity fund should be disclosed	159	FRIBI 11.21	-
68	Disclosure should be made of the funds paid by the IB from the <i>Zakah</i> and charity fund during the period and of funds available in the fund at the end of the period	160	TRi1 17(b)	-
10. Statement of Sources and Uses of Funds in the Qard Fund (SSUQ)				
69	The period covered by the SSUQ should be disclosed	161	MFRS101 51(c)	-
70	The balances of <i>Qard</i> outstanding and funds available in the fund at the beginning of the period should be disclosed by source	162	FRIBI 11.10	-
71	The amounts and sources of funds contributed to the fund during the period should be disclosed by source	163	FRIBI 11.10	-
72	The amounts and uses of funds during the period should be disclosed by type	164	FRIBI 11.10	-
73	The balances of <i>Qard</i> outstanding and funds available in the fund at the end of the period should be disclosed	165	FRIBI 11.10	-
11. Treatment of changes in accounting policies				
74	The following are not considered changes in accounting policies:			
	a. The adoption of a new accounting policy because of a clear difference in the substance of certain transactions and events compared to similar transactions and events in the past	166	MFRS108 16(a)	-
	b. The adoption of a new accounting policy because of transactions or events that are occurring for the first time or have occurred in the past but were immaterial	167	MFRS108 16(b)	-
	c. Changes in the classification of items in the FS of the current period compared to their classification in prior period FS	168	MFRS108 19(a)	-
75	Any changes in accounting policy should be applied retrospectively by restating the FS for the last period presented unless it is not practicable.	169	MFRS108 22	-
76	If the data necessary for restating one or more of the prior periods' FS are not available or not practicable to obtain, retained earnings as of the beginning of the current or a prior period should be restated to reflect the cumulative effect.	170	MFRS108 24	-

77	The balance of retained earnings at the at the beginning of the first period presented should be adjusted to reflect the cumulative effect of the change on the prior periods which are not presented and the cumulative effect should be disclosed	171	MFRS108 26	-
78	Disclosure should be made as to whether prior periods presented have been restated to reflect the effect of the change	172	MFRS108 28	-
79	The effect of the change in an accounting policy on unrestricted investment accounts owners' share income or loss from investments and on net income or loss for the current period and for each prior period presented should be disclosed	173	IA 27.6(a)	-
80	The effects of multiple changes in accounting policies should not be netted and should be disclosed separately.	174	MFRS108 28(f)(i)	-
81	A change in accounting policy should be disclosed even when its effect is not material in the current periods when it is expected to have a material effect on future periods	175	MFRS108 28	
12. Treat of changes in non-routine accounting estimates				
82	The effect of a change in a non-routine accounting estimate should be reflected in:			
	a. The period of the change if the effect of the change is limited to that period	176	MFRS108 36(a)	-
	b. The period of the change and future periods if the change affects the current and future periods	177	MFRS108 36(b)	-
	c. The effect of the change in a non-routine accounting estimate on unrestricted investment account holders share in income or loss from investments and on net income or loss for the current period should be separately disclosed	178	MFRS108 37	-
13. Treatment of a correction of an error in prior period FS				
83	An error in prior FS should be corrected retrospectively by restating the FS for all prior periods presented which have been affected by the error	179	MFRS108 42(a)	-
84	Retained earnings at the beginning of the first period presented should be adjusted to reflect the cumulative effect of the correction of the error on the periods which are not presented but which were affected by the error	180	MFRS108 42(b)	-
14. Effective date				
85	This standard shall be effective for fiscal period beginning on 1 January 1996	181	FRIBI 4	-

Source: Extracted from Financial Accounting Standard No 1 (FAS1), "General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions", issued by AAOIFI